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*Jeffrey M. Nelson*  
Chief Legal Officer

September 10, 2018

**VIA ELECTRONIC FILING**

Jocelyn G. Boyd, Esquire  
Chief Clerk & Administrator  
Public Service Commission of South Carolina  
101 Executive Center Drive, Suite 100  
Columbia, South Carolina 29210

**RE: Application of Duke Energy Carolinas, LLC for Approval of Transfer and Sale of Hydroelectric Generation Facilities, Acceptance for Filing of a Power Purchase Agreement and an Accounting Order to Establish a Regulatory Asset**  
**Docket No. 2018-281-E**

Dear Ms. Boyd:

By this letter, the South Carolina Office of Regulatory Staff ("ORS") hereby notifies the Public Service Commission of South Carolina ("Commission") that ORS has reviewed and discussed with Duke Energy Carolinas, LLC ("DEC" or "Company") personnel the Company's application for approval of transfer and sale of hydroelectric generating facilities, acceptance for filing of a power purchase agreement and an accounting order to establish a regulatory asset.

The five Hydroelectric Generation Facilities ("Facilities") have a combined 18.7-megawatt generation capacity, and consist of the Bryson, Franklin and Mission hydroelectric generation facilities in the Nantahala area of North Carolina; the Tuxedo hydroelectric generation facility in Henderson County, North Carolina; and the Gaston Shoals hydroelectric generation facility in Cherokee County, South Carolina. DEC entered into an Asset Purchase and Sale Agreement with Northbrook Carolina Hydro II, LLC and

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Northbrook Tuxedo, LLC (collectively, "Northbrook") to sell and transfer the Facilities for \$4,750,000 to Northbrook.

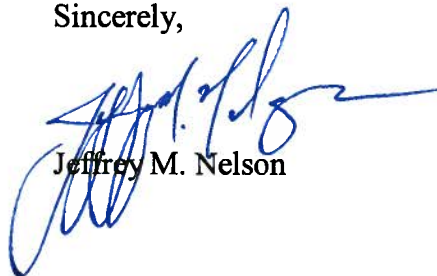
The transaction with Northbrook followed a competitive bidding process. The Facilities are some of the oldest in DEC's portfolio, having entered service over ninety years ago, and have a current net book value of \$42 million. The Company's estimated loss on the disposition of assets on a total system basis is \$40 million. DEC requests approval to establish a regulatory asset to defer the estimated loss of the disposition of the Facilities in the amount of \$9.5 million on a South Carolina retail basis. DEC states that divesting the Facilities is more economic than continued ownership and will result in net savings for customers over time due to the significant maintenance costs required by the Facilities.

In addition to meeting with ORS to discuss the project during multiple phases of the bidding process, DEC provided the proposed accounting treatment, the calculation and supporting documentation for the derivation of the estimated loss and a cost benefit analysis showing the economic impact to ORS for its review.

Based on our review of the information provided, ORS does not object to the Company's application for approval of transfer and sale of these hydroelectric generating facilities, acceptance for filing of a power purchase agreement and an accounting order to establish a regulatory asset. ORS's position is predicated on the basis that the issuance of an Accounting Order in this matter will not preclude the ORS, the Commission, or any other party, from addressing the reasonableness of these costs, any return sought, and including any carrying costs in a subsequent general rate case or other proceeding.

If you have any questions, please do not hesitate to contact me.

Sincerely,



Jeffrey M. Nelson

cc: Joseph Melchers, Esquire (via E-mail)  
All Parties of Record